Effects of Institutional Quality on Globalization Participation

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Abstract

This paper aims to work out the relationship between institutional quality and globalization participation through statistical analysis using data from 1990-2010. By disaggregating foreign direct investment in relation to globalization impact, this paper identifies economic institutional quality as having the strongest relationship to positive globalization participation. Further analysis determines that no single economic institutional indicator strongly relates to positive globalization participation; however, collectively the indicators imply a relationship.

Introduction

Starting in the 1970s, foreign direct investment flows took off globally. By the 1990s, the foreign direct investment growth rate exceeded both world trade and world output growth rates (Bissoon 2011). With such large amounts of investment crossing borders, the study surrounding the topic exploded. With foreign direct investment connecting to everything from policy decisions to economic development, it quickly became an interdisciplinary study.

A focus amongst today's literature explores how countries can experience the positives of globalization, which results from foreign direct investment. An interesting dichotomy presents itself in the study globalization, seen in the case of two countries within Southeast Asia: Burma and Thailand. Consistently, Burma ranks as one of the world's least globalized countries while Thailand ranks amongst Southeast Asia's most globalized countries (KOF 2015). Considering their regional proximity and cultural similarities, it seems surprising that the two can have such different experiences with globalization. Further investigation reveals that in 2011, both countries received similar amounts of foreign direct investment inflows (World Bank). Which leads to the question: If both countries reside in the same region and receive comparable amounts of foreign direct investment, then why do they have such different experiences with globalization?

A more in depth study reveals that the two countries greatly differ in terms of institutional quality. The Heritage Foundation ranks Thailand amongst the most economically free countries in Southeast Asia, whereas Burma ranks amongst the least economically free. Rankings formulated from different institutional quality indicators

reveal that in the past several decades Thailand has focused on implementing policies focuses on openness, whereas Burma has been distracted by political instability.

The case of Burma and Thailand shows that in order to fully understand globalization participation, one must examine institutional quality within the context. Although foreign direct investment drives globalization, it alone does not create a clear explanation for the differences in globalization. This study explores how institutional quality, foreign direct investment, and globalization affect a country's' global participation.

Literature Review

A major area of study within the past few decades has involved analyzing foreign direct investment trends and globalization; however, few studies have worked towards bridging the gaps. Through analysis of past literature surrounding the topic, a hole in the research becomes clear. In studies of foreign direct investment's relation to institutional quality, capital flows are often treated as a homogenous variable. However, studies of globalization have determined that different types of investment have different impacts on how that country participates in globalization. Therefore, to determine how institutional quality impacts globalization participation, foreign direct investment must be treated as heterogeneous variable. I argue that the quality of each country's political, economic, and legal institutions affect the likelihood that they will receive the investment necessary to positively participate in globalization.

The following literature review will focus on the three major theoretical topics for my thesis: institutional quality, foreign direct investment, and globalization. These three

topics are often studied in relation with one another, however rarely all together. This review provides a background for each of the theoretical topics explored and identifies the gap for new research to fill.

Institutional Quality

Modern study of institutions builds off the work of Coase, North, and Ostrom. The Coase Theorem developed in the 1960s, discussing property right's relation to economic transactions between two actors, sparked interest in the study of formal structure for human interaction. North (1990) argues that institutions have a key impact on economic performance because they provide the rules and structure for human interaction. North defines institutions as "the humanly devised constraints that shape interaction" and argues that the rules of the game effect how the game is played. Ostrum (1995) furthers North's work by developing the New Institutional Economics by breaking down institutions into rules, norms, and shared strategies.

The New Institutional Economics theory proposes that economic activity heavily relies on the institutions containing the activity (Ostrum). Although this theory of institutions does create a direct link to the study of foreign direct investment, early work did not operationalize the theory into practical terms.

More recently, researchers have developed tactics to operationalize the theory to allow for practical testing, in terms of how institutions impact economic activity. Several projects have worked independently in an effort to rate and rank countries' institutional quality, including Freedom House (2012), The PRS Group (2013), and Transparency International (2013). In order to make a comprehensive data set, Kuncic (2013) aggregated past ratings to create economic, political, and legal institutional rankings.

Although Kuncic works to put together this index, he draws few conclusions from the data, leaving the door open to future studies to apply the information.

Foreign Direct Investment

Foreign direct investment (FDI) collectively refers to the different tactics a company can use to expand influence to a foreign country. Capello and Dentinho (2012) simplify foreign direct investment by breaking it down into two types: horizontal multinational and vertical multinational investment. Horizontal multinational investment entails a firm aiming to achieve proximity to consumers by setting up a plant in each market they serve; therefore, production and selling happens in each foreign market. In vertical multinational, the firms aim at finding countries suitable for different departments, generally based on cost and skill level. It commonly comes in the form of a firm having goods produced in a low-skilled, low-cost area and having those goods exported to the host country, which has high skilled, high-costs jobs and the intended consumers.

The study of foreign direct investment can be traced back to the 15th century as trading companies based in Europe made expeditions around the world to facilitate exchange, creating a global economy. According to Smelser and Swedberg (2005), since that time, international investment and trade has been able to grow within the bounds of institutions that provide the structure and norms.

Under the assumption that investment can only happen within the bounds of institutions, different researchers worked to determine how institutions attract or deter investment. Bissoon (2011), Wearnick and Hear (2000), and Lim (2001) independently concluded that the quality of a country's institutions play a great role in attracting or

deterring foreign direct investment. Institutions have the ability to make a business friendly environment, as they indicate stability, infrastructure development, trade openness, and legal efficiency.

With the knowledge that quality institutions attract investment, researchers turned their focus to determine how foreign investment affects a country domestically. Borzentein (1998), Mello (1999), and Bengoa and Robles (2002) each concluded that foreign direct investment can lead to long-term economic growth, however limitations exist due to a country's internal policies and work force. Bengoa and Robles determined several other benefits that countries receive from foreign investment: improved resource extraction, improved distribution, improved productivity, and improved human capital.

Despite the significant research that points towards foreign direct investment creating positive outcomes for a country, some counter arguments still hold weight. Goldberg and Pavcnick (1997) determine that whether a country reaches its growth potential with foreign investment or just entraps low wageworkers, hinges on the type of investment received. This idea creates a gap in the study of the relationship between institutional quality and investment. Past studies treat investment as a homogenous term, however Goldberg and Pavcnick point out that the type of investment can determine if the county experiences positive growth, indicating it should be treated as a heterogeneous variable.

Globalization

Globalization is a frequently talked about topic in today's world, as different county's seem to have very different experiences with the phenomena. Amongst today's literature, most researchers accept foreign direct investment as the driver of globalization,

as foreign capital brings in foreign ideas and culture. Current research focuses on how countries end up on the winning or the losing side of globalization.

Building off Goldberg and Pavcnik's study determining that different types of investment lead to different results, Dreher (2006) built an index of globalization breaking it down into three sections, political, economic, and social. He proposed that globalization comes in different shapes and forms depending on investment and internal policies. Economic globalization is frequently linked to creating growth for a country in terms of GDP and industrial output, however it frequently overlooks the creation of social issues such as inequality and poverty. Having a country solely experience economic globalization does not necessarily imply positive participation; many citizens may be trapped in low wage, low skill jobs that only really benefit the developed world.

Social globalization occurs when ideas diffuse amongst the citizens, as the country also participates in economic globalization (Dreher 2006). This spread of ideas is not possible at levels of great inequality, so social globalization in combination with economic globalization allows for a country to positively participate. The countries that are able to achieve a combination of economic and social are able to increase their growth rates while maintaining social standards that allow for citizens to learn of new ideas and share information with other places in the world.

Multiple studies point towards the possible benefits of participating in globalization, such as increased income for the poor, decreased human rights violation, and increased international trade (Faechem 2001). However, if on the losing end of globalization, a country can experience increased income inequality and decreased labor and wage standards (Bhagwati 2007). As Nurala and Dunning (2000) point out,

multinational enterprises (MNEs) currently hold the bargaining power in today's global economy. Therefore, each country must identify desirable investment types and make itself an attractive candidate in order to participate in the positives of globalization.

Thesis Contribution

I argue that the quality of each country's political, economic, and legal institutions affect the likelihood that they will receive the investment necessary to positively participate in globalization. In order to determine the validity of my hypothesis, my analysis will focus on filling the gaps presented in the current literature. Foreign direct investment is frequently treated as a homogenous variable, however the study of globalization shows its heterogeneous effects. Therefore, I will focus on horizontal multinational investment, associated with social globalization, in order to determine the impact of institutional quality on globalization participation.

Theoretical Argument

This analysis will focus on determining if countries with higher quality institutions receive more horizontal investment linked to positive participation in globalization. Social globalization, the spread of ideas and culture, links to positive participation as it implies economic globalization while maintaining social standards. Critics of globalization point towards this social dimension as a negative as it steers people away from traditional culture. However, I argue that this portion of globalization introduces new ways of life and cultures to people. Cultural assimilation is not forced, but people are made aware of other cultures and ways of life; the choice to partake in any social trend is still at their discretion.

Many studies have connected foreign direct investment to globalization, but few have acknowledged globalization has different dimensions. In order to determine how a country can positively participate, foreign direct investment must be broken down and not treated like a homogenous variable. In reality, foreign direct investment comes in many different forms.

Considering past studies have examined how foreign direct investment contributes to economic globalization, it is more important to determine the types of foreign direct investment that can contribute to social globalization. A distinguishing factor for this analysis when looking at the forms of foreign direct investment is what market the products or services rendered are intended for. Horizontal multinational investment allows for social globalization because it introduces foreign products and services into a country, introducing consumers to new ideas.

Horizontal investments require market research, distribution set up, and local expertise, all of which takes time and money. Since this investment is risky, investors thoroughly study each country before any decision. The quality of each country's institutions will come into question as potential investors evaluate the risk of an investment**.**

I predict economic institutions will have the greatest impact on investors' decisions, because policies that can heavily impact possible costs and revenues for an incoming firm, critical variables in their decision, shape economic institutions. These policies refer to trade barriers, including tariffs and quotas, and regulations, in terms of credit and labor. These closely impact how an investor can set up a business within the host country.

This thesis aims at determining the connection between institutional quality and globalization participation. Institutional quality impacts the amount and type of foreign investment received. That investment, in part, determines whether that country will positively or negatively participate. By determining that horizontal investment allows for positive participation, I can examine if institutional quality impacts the countries' ability to receive that type of investment, and in turn positively participate in globalization. **I argue that the quality of each country's political, economic, and legal institutions affect the likelihood that they will receive the investment necessary to positively participate in globalization.**

Hypothesis: Countries with higher quality institutions will receive more horizontal investment linked to positive participation in globalization.

Data Analysis

The data analysis will involve the testing of continuous variables against one binary variable with multiple logistic regression analyses. The institutional quality, the independent variable, for each country will be measured as a continuous variable. I will use institutional quality ratings from Kuncic's (2013) study that operationalized the New Institutional Economics theory while combining past institutional quality studies to calculate ratings for 94 different countries from 1990-2010. Kuncic breaks down his analysis into political, legal, and economic institutions to give each a relative and absolute rating. Considering the variables his study uses blends both formal and informal institutional characteristics, I believe it will serve as a good measure for my research as it

quantifies the overall quality of each country's institutions. Also, the variables used in this analysis, such as property rights, regulatory quality, and control of corruption, have been cited in other sources as being contributors to creating a friendly business environment. Each country each year will have an institutional quality rating for political, economic, and legal sectors, which will serve as the independent variables.

From Kuncic's study, I will use the relative rankings rather than the absolute rankings because investors view market opportunities relative to one another. These rankings more closely simulate how investors would evaluate two different countries against each other. Kuncic provides these relative rankings by category, by country, and by year.

Foreign direct investment contributing to social globalization will be the dependent variable measured in a binary format. Dreher (2006) uses the number of McDonald's restaurants per capita as a measure of social globalization. The same measure will be used here. McDonald's restaurants serve as a good proxy for measuring the impact because social globalization is connected to cultural awareness and McDonald's can be considered a cultural phenomenon. The variable, coded in a binary fashion, shows whether or not a country has a McDonald's, rather than having a per capita measurement. Having a restaurant signals horizontal investment, but also social globalization, therefore making it a good proxy for this study.

McDonald's will be coded as a binary variable in order to control for other variables that might impact the number of restaurants a country has. There are many variables that would impact the rate of expansion of McDonald's restaurants in a country, such as management style, consumer preferences, pricing, promotions, and competition.

It would be difficult to control for each of these variables in each country. Making it a binary variable controls for those extraneous variables while still signaling a level of social globalization.

In addition, the analysis involved several control variables. I controlled for development by using GDP per capita. Without this control, the development of each country can sway the results of the analysis. Additionally, I controlled for population to ensure that the size of a country did not skew the analysis. Without this control, simply having the largest market could attract investors.

I used data from 1990 to 2010 to measure the data by country and by year. The institutional quality of a country in a year represents one unit for the independent variable. For example, the institutional quality of China in 2000 represents one unit. A unit for the dependent variable will depend on whether or not they have a McDonalds. For example, if China has a McDonalds in 2000, it will be coded as 1; if not, it will be coded as 0. In order to test the relationship between the two variables, I will run a logistic regression analysis.

Due to gaps in the data collected, the years 1993, 1995, and 2007 will be used for the analysis. Unfortunately, McDonald's does not break out the number of restaurants it has in each country every year. Frequently their annual reports lump regions together, however, considering the wide differences in institutional quality by region, that data provides no value. Rather, I will focus on the years I gathered data for in order to test my hypothesis.

I will run the logistic regression 28 separate times to account for the different variables I have collected (Table 3). I chose to use a logistic regression because it allowed

me to see the relationship between a binary variable, which I used for McDonald's restaurants, and a continuous variable. Each time I ran the regression, I used a different continuous variable that served as an indication of institutional quality. I used 14 different indicators of institutions quality and ran each twice- once without controls and once with controls.

The initial run of each variable used the following equation in which Y_1 represents the binary variable of McDonalds and x is an institutional indicator:

$$\text{Model 1:} \quad Y_1 = b_0 + b_1 x$$

I ran this equation for each of the institutional indicators. In order to control for GDP per Capita and Population, I additionally ran the following equation for each indicator:

$$\text{Model 2:} \quad Y_1 = b_0 + b_1 x + b_2(\text{GDP}) + b_3(\text{Pop})$$

This equation takes into account the control variables while still testing institutional quality indicators against the dependent binary variable.

In order to more accurately compare institutional indicators, I ran another test of the data using legal, political, and economic institutional indicators as the independent variables. I ran this test once without controls and once with controls.

$$\text{Model 3:} \quad Y_1 = b_0 + b_1 x_1 + b_2 x_2 + b_3 x_3$$

$$\text{Model 4:} \quad Y_1 = b_0 + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_2(\text{GDP}) + b_3(\text{Pop})$$

In order to check for robustness, I used a measure of social globalization in general to see how the results compare to using McDonald's as a variable. KOF Swiss Economic Institute is a Swiss economic think tank that has put together measures of globalization, including social, political, and economic. The social globalization metric used data on information flows, personal contact, and cultural proximity. In order to see

its similarity to my horizontal investment proxy, McDonald's restaurants, I ran a logistical regression between the two variables.

Results

Initially, I ran a logistic regression for each of the institutional quality measures individually against the binary variable for McDonald's restaurants (proxy for horizontal investment leading to social globalization), and then I ran each with the controls of GDP per capita and population. The economic institution quality variable showed the strongest correlation, supporting my hypothesis.

Referencing Table 7, we see that even with taking into account the control variables, relative economic institutional rating has a coefficient of 1.195 when ran against the binary variable of McDonald's restaurants. With a t-statistic of 4.61, the result is significant at the .005 level. Both legal and political relative ratings also resulted with strong coefficients of .564 and .862, respectively, both significant at the .005 level.

In order to more accurately see how the aggregate institutional quality indicators compared, I used a model that had all three as independent variables at once (Table 20). By finding the odds ratio for each variable, we find that relative economic institutional rating has a larger impact than originally expected. With a coefficient of 1.373 and an odds ratio of 3.948, relative economic institutional quality stands out as having the strongest relationship to social globalization. The odds ratio reveals that a single point increase in economic quality increases the probability of having a McDonald's restaurant by close to 400%, even when controlling for both GDP per capita and population. In comparison, relative legal quality has an odds ratio of .3420 and relative political quality

has an odds ratio of 2.456, showing that all three aggregate measures have a strong relationship to the probability of having a McDonald's restaurant.

In order to determine if a specific factor within the economic institutional indicator strongly correlates to social globalization, I disaggregated the economic variable into eight variables. Kuncic initially used these variables, among others, to create the aggregate rating for each country. The eight variables were collected from the Heritage Foundation's Economic Freedom Index and are:

Fiscal Freedom	Government Spending
Business Freedom	Labor Freedom
Monetary Freedom	Trade Freedom
Investment Freedom	Fiscal Freedom

Looking at each variable's odds ratio individually in relation to the McDonald's variable, no single variable stands out as having a very strong relationship. Each has a positive relationship, however no single variable stands out in comparison to the aggregate measure. Business Freedom and Monetary Freedom have the strongest relationships in comparison to the other variables, however not by a significant amount (Table 21). A high level of business freedom indicates the ease of starting and operating a business within a country. Considering we are using McDonald's as a proxy, it makes sense that business freedom has a strong relationship. McDonald's, as a rational actor, would choose opportunities that allow for easy opening and operation. A high level of monetary freedom indicates price stability within a country. Price stability allows for McDonald's to compete in a free market fashion. Price controls and frequent microeconomic intervention could prevent their ability to profit.

I think that each variable plays a role in attracting horizontal investment, however it's the whole package that will get a multinational's attention. Just having one or two of

these variables does not hold much weight considering the complexity involved in investing in a foreign country. A country must have several of these variables going in its favor in order for a multinational to consider them as a target for investment.

The data analysis supports my hypothesis. Economic institutions do play the largest role in determining if a country will receive the type of investment that allows for positive participate in globalization, however, political and legal institutional factors also have an impact. The variables making the economic institutional rating individually do not have a strong relationship with the horizontal investment proxy, however together they do. This shows the complexity of creating a quality institution and the multitude of factors that multinationals consider when investing.

Conclusion

This study indicates that economic institutional quality serves as an important factor in determining globalization participation. Although economic institutional quality had the strongest relationship, both political and legal institutional had a relatively strong relationship, as well. This indicates that a country needs a balance amongst the three institutions in order to attract the type of investment linked to positive, or social, globalization, with a particular focus on economic policies. Closer analysis of economic institutional quality showed that no single indicator had a strong relationship with positive participation, indicating that a country needs a holistic approach and that no quick policy fix exists.

This study takes a step towards bridging the gap in today's literature surrounding institutional quality, foreign direct investment, and globalization. Future studies can focus on determining alternate ways of measuring horizontal investment or social globalization.

Using McDonald's as a proxy for the investment that leads to social globalization admittedly has its shortcomings; however, social globalization lacks many concrete measures and foreign direct investment can be disaggregated many different ways.

The results from this study can serve as a starting point for future studies set on determining how institutional quality can impact globalization participation. With globalization as a growing trend, it is in countries' best interest to determine how they can positively participate. Early findings from this study indicate that countries should focus on implementing economic policies focused on openness and ease of doing business in order to attract investment.

Table 1: Variable Descriptions

Variable	Source	Description
Legal Relative	Kuncic	An aggregate measure of legal institutional quality relative to other countries.
Political Relative	Kuncic	An aggregate measure of political institutional quality relative to other countries.
Economic Relative	Kuncic	An aggregate measure of economic institutional quality relative to other countries.
Polity	Polity IV Project	The Polity scheme consists of six component measures that record key qualities of executive recruitment, constraints on executive authority and political competition. It also records changes in the institutionalized qualities of governing authority.
Social Globalization	KOF	A score derived from data on personal contact, data on information flows, and data on cultural proximity for each country.

Table 2: Heritage House's Economic Freedom Ranking Factors

Variable	Category	Description
Property Rights	Rule of Law	Property rights measures the degree to which a country's laws protect private property rights and the degree to which its government enforces those laws.
Freedom from Corruption	Rule of Law	Corruption erodes economic freedom by introducing insecurity and uncertainty into economic relationships. The score for this component is derived primarily from Transparency International's Corruption Perceptions Index
Fiscal Freedom	Limited Government	Fiscal freedom is a measure of the tax burden imposed by government. It includes both the direct tax burden in terms of the top tax rates on individual and corporate incomes and the overall amount of tax revenue as a percentage of GDP.
Government Spending	Limited Government	This component considers the level of government expenditures as a percentage of GDP. Government expenditures, including consumption and transfers, account for the entire score.

Business Freedom	Regulatory Efficiency	Business freedom is a quantitative measure of the ability to start, operate, and close a business that represents the overall burden of regulation as well as the efficiency of government in the regulatory process.
Labor Freedom	Regulatory Efficiency	The labor freedom component is a quantitative measure that looks into various aspects of the legal and regulatory framework of a country's labor market. It provides cross-country data on regulations concerning minimum wages; laws inhibiting layoffs; severance requirements; and measurable regulatory burdens on hiring, hours, and so on.
Monetary Freedom	Regulatory Efficiency	Monetary freedom combines a measure of price stability with an assessment of price controls. Both inflation and price controls distort market activity. Price stability without microeconomic intervention is the ideal state for the free market.
Trade Freedom	Open Markets	Trade freedom is a composite measure of the absence of tariff and non-tariff barriers that affect imports and exports of goods and services.
Investment Freedom	Open Markets	In an economically free country, there would be no constraints on the flow of investment capital. Individuals and firms would be allowed to move their resources into and out of specific activities, both internally and across the country's borders, without restriction.
Financial Freedom	Open Markets	Financial freedom is a measure of banking efficiency as well as a measure of independence from government control and interference in the financial sector.

Table 3: Variable Summary

Variable	N	Mean	SD	Min	Max
Legal Relative	2452	-5.71e-10	.9507	-2.147604	1.932505
Political Relative	2555	3.87e-09	.9825595	-2.215793	2.035915
Economic Relative	2252	-3.91e-09	.9487018	-2.927438	1.958171
Any Restaurant	591	.4263	.0203	0	1
Polity	3327	2.938383	6.696728	-10	10

Property Rights	2156	50.40	24.68	5	95
Freedom From Corruption	2156	41.45	24.71	4	10
Fiscal Freedom	2156	69.37	16.70	0	99.9
Government Spending	2156	62.75	24.91	0	99.3
Business Freedom	2156	64.245	16.f1055	0	100
Labor Freedom	860	61.28	17.12	0	100
Monetary Freedom	2156	71.437	18.7257	0	95.4
Trade Freedom	2156	65.165	17.45	0	95
Investment Freedom	2156	52.05	19.8667	0	95
Financial Freedom	2156	50.18	20.9233	0	90
Social Globalization	3402	45.18	22.33	3.436	93.15778

Logistic Regression Results

Table 5

Variable	Model 1	Model 2 (includes controls)
Legal Relative	1.251 (8.25)***	.564 (2.79)***
Population	----------	3.40 e-09 (2.05)*
GDP Per Capita	----------	.0001 (4.81)***
Constant	.545 (4.35)***	-.543 (-2.66)***
# of Observations	*373*	*351*
Log Likelihood	*-204.697*	*-169.112*
Prob > Chi Squared	*0.000*	*0.000*

Table 6

Variable	Model 1	Model 2 (includes controls)
Political Relative	1.3699 (8.68)***	.862 (4.28)***
Population	----------	3.68e-09(2.11)

GDP Per Capita	----------	.0001(4.52)***
Constant	.411(3.28)***	-.510(-2.63)***
# of Observations	*372*	*355*
Log Likelihood	*-199.03*	*-167.055*
Prob > Chi Squared	*0.000*	*0.000*

Table 7

Variable	Model 1	Model 2 (includes controls)
Economic Relative	1.6518 (8.48)***	1.195 (4.61)***
Population	----------	4.30e-09(2.05)*
GDP Per Capita	----------	.0001(3.03)***
Constant	.879(5.79)***	-.510(-2.63)***
# of Observations	*326*	*306*
Log Likelihood	*-155.44*	*-133.13*
Prob > Chi Squared	*0.000*	*0.000*

Table 8

Variable	Model 1	Model 2 (includes controls)
Polity	.1257 (7.73)***	.0977 (4.80)***
Population	----------	4.53e-09(2.31)*
GDP Per Capita	----------	.0002(6.93)***
Constant	-.523(-4.47)***	-1.604(-9.13)***
# of Observations	*479*	*461*
Log Likelihood	*-296.539*	*-208.215*
Prob > Chi Squared	*0.000*	*0.000*

Table 9

Variable	Model 1	Model 2 (includes controls)
Property Rights	.05005 (7.36)***	.0207977 (2.28)*
Population	----------	1.07e-08(2.50)**

GDP Per Capita	----------	.0001(4.45)***
Constant	-2.256(-6.54)***	-2.084(-5.11)***
# of Observations	*278*	*266*
Log Likelihood	*-153.91*	*-121.40092*
Prob > Chi Squared	*0.000*	*0.000*

Table 10

Variable	Model 1	Model 2 (includes controls)
Freedom From Corruption	.0624 (7.33)***	.0259 (2.15)*
Population	----------	1.14e-08(2.66)***
GDP Per Capita	----------	.0001(3.87)***
Constant	-2.204(-6.75)***	-2.027(-5.01)***
# of Observations	*278*	*266*
Log Likelihood	*-146.33*	*-121.713*
Prob > Chi Squared	*0.000*	*0.000*

Table 11

Variable	Model 1	Model 2 (includes controls)
Fiscal Freedom	.00709 (.321)	.023 (2.04)*
Population	----------	9.79e-09(2.29)*
GDP Per Capita	----------	.0002(6.10)***
Constant	-.318(-0.63)	-2.967(-3.49)***
# of Observations	*278*	*266*
Log Likelihood	*-191.161*	*-121.791*
Prob > Chi Squared	*0.319*	*0.000*

Table 12

Variable	Model 1	Model 2 (includes controls)
Government Spending	-.0277 (-4.73)***	-.0129 (-1.73)*
Population	----------	1.16e-08(2.68)*

GDP Per Capita	----------	.0001(5.39)***
Constant	1.99(4.81)***	-.434(.560)
# of Observations	*278*	*266*
Log Likelihood	*-178.644*	*-122.605*
Prob > Chi Squared	*0.000*	*0.000*

Table 13

Variable	Model 1	Model 2 (includes controls)
Business Freedom	.0761 (7.04)***	.038145 (2.87)***
Population	----------	1.10e-08(2.58)**
GDP Per Capita	----------	.0001(4.73)***
Constant	-4.626(-6.72)***	-3.512(-4.33)***
# of Observations	*278*	*266*
Log Likelihood	*-155.816*	*-119.547*
Prob > Chi Squared	*0.000*	*0.000*

Table 14

Variable	Model 1	Model 2 (includes controls)
Labor Freedom	.02305 (2.17)*	-.0003 (-.24)
Population	----------	9.66e-09(1.71)*
GDP Per Capita	----------	.0001(4.23)***
Constant	-1.190(-1.80)*	-1.282(-1.51)
# of Observations	*138*	*132*
Log Likelihood	*-92.435*	*-59.036*
Prob > Chi Squared	*0.0251*	*0.000*

Table 15

Variable	Model 1	Model 2 (includes controls)
Monetary Freedom	.04235 (4.08)***	.00148 (.16)
Population	----------	1.03e-08(2.45)**

GDP Per Capita	----------	.0002(5.60)***
Constant	-2.896(-3.73)***	-1.433(-2.29)*
# of Observations	*278*	*266*
Log Likelihood	*-179.314*	*-124.070*
Prob > Chi Squared	*0.000*	*0.000*

Table 16

Variable	Model 1	Model 2 (includes controls)
Trade Freedom	.07411 (6.90)***	.0545 (3.89)***
Population	----------	1.28e-08(2.60)***
GDP Per Capita	----------	.0001(4.33)***
Constant	-4.755(-6.45)***	-4.702(-5.04)***
# of Observations	*278*	*266*
Log Likelihood	*-156.345*	*-114.313*
Prob > Chi Squared	*0.000*	*0.000*

Table 17

Variable	Model 1	Model 2 (includes controls)
Investment Freedom	.04515 (6.05)***	.0218 (2.37)**
Population	----------	1.07e-08(2.51)**
GDP Per Capita	----------	.0001(5.20)***
Constant	-2.11(-5.33)***	-2.308(5.20)***
# of Observations	*278*	*266*
Log Likelihood	*-169.651*	*-121.168*
Prob > Chi Squared	*0.000*	*0.000*

Table 18

Variable	Model 1	Model 2 (includes controls)
Financial Freedom	.04797 (6.40)***	.0259 (2.76)***
Population	----------	1.20e-08(2.72)***

GDP Per Capita	----------	.0001(5.03)***
Constant	-2.18(-5.61)***	-2.475(-5.06)***
# of Observations	*278*	*266*
Log Likelihood	*-165.529*	*-119.994*
Prob > Chi Squared	*0.000*	*0.000*

Table 19

Variable	Model 1	Model 2 (includes controls)
Social Globalization	.01059 (2.58)***	.009066 (1.81)*
Population	----------	1.56e-08(4.19)***
GDP Per Capita	----------	.0001(7.84)***
Constant	-.715(-3.43)***	-1.910(-6.70)***
# of Observations	*489*	*486*
Log Likelihood	*-332.249*	*-240.747*
Prob > Chi Squared	*0.0094*	*0.000*

Table 20

Variable	Model 3	Model 4 (includes controls)	Model 2 Odds Ratio
Legal Relative	-.686 (-1.66)	-1.0727 (-2.41)*	.3420
Political Relative	.836 (2.17)*	.890 (2.13)*	2.456
Economic Relative	1.555 (4.34)***	1.373 (4.25)*	3.948
Population	----------	4.46e-09(2.12)*	----------
GDP Per Capita	----------	.0001(2.74)**	----------
Constant	.775 (4.76)***	-.0602 (-0.24)	----------
# of Observations	*307*	*293*	----------
Log Likelihood	*-145.648*	*-126.62*	----------
Prob > Chi Squared	*0.0000*	*0.000*	----------

Table 21: Odds Ratio (Model 2, Including Controls)

Variable	Odds Ratio
Legal Relative	1.757
Political Relative	2.368
Economic Relative	3.306
Polity	1.026
Property Rights	1.021
Freedom From Corruption	1.026
Fiscal Freedom	1.023
Government Spending	.987
Business Freedom	1.038
Labor Freedom	.996
Monetary Freedom	1.043
Trade Freedom	1.001
Investment Freedom	1.022
Financial Freedom	1.026
Social Globalization	1.009

Format: Coefficient (t-statistic)
***Significant at .005 level; **Significant at .01 level; *Significant at .05 level

Model 2 Variable Margins with Controls held at Means

Table 20: Relative Legal Ranking (control held at means)

	Delta-method Margin	Std. Err.	z	P>|z|	[95% Conf.	Interval]
_at						
1	.5191458	.1309538	3.96	0.000	.2624811	.7758105
2	.5887136	.1063798	5.53	0.000	.3802131	.7972142
3	.6549071	.0819107	8.00	0.000	.4943651	.8154491
4	.7155938	.0611138	11.71	0.000	.5958129	.8353747
5	.7693667	.0467699	16.45	0.000	.6776993	.8610342
6	.8155928	.0395829	20.60	0.000	.7380117	.8931738
7	.8543082	.0372448	22.94	0.000	.7813096	.9273067
8	.8860312	.0364521	24.31	0.000	.8145865	.957476
9	.911562	.0352843	25.83	0.000	.8424061	.9807179

Table 21: Relative Political Ranking (control held at means)

	Delta-method Margin	Std. Err.	z	P>|z|	[95% Conf.	Interval]
_at						
1	.3092204	.1108007	2.79	0.005	.0920549	.5263858
2	.4078807	.1044683	3.90	0.000	.2031266	.6126347
3	.5145708	.0884461	5.82	0.000	.3412195	.687922
4	.6199492	.0682417	9.08	0.000	.486198	.7537004
5	.7151166	.0509889	14.02	0.000	.6151803	.815053
6	.7943582	.0405547	19.59	0.000	.7148725	.873844
7	.8559969	.0350537	24.42	0.000	.7872929	.9247009
8	.9014522	.0308177	29.25	0.000	.8410506	.9618537
9	.9336711	.0262786	35.53	0.000	.8821659	.9851762

Table 22: Relative Economic Ranking (control held at means)

	Delta-method Margin	Std. Err.	z	P>|z|	[95% Conf.	Interval]
_at						
1	.1126199	.0851883	1.32	0.186	-.0543462	.279586
2	.1874969	.1114889	1.68	0.093	-.0310174	.4060112
3	.2955748	.12805	2.31	0.021	.0446013	.5465483
4	.4327689	.1238566	3.49	0.000	.1900145	.6755233
5	.5811106	.0987587	5.88	0.000	.3875472	.7746741
6	.7161069	.0669113	10.70	0.000	.5849631	.8472507
7	.8209988	.0430327	19.08	0.000	.7366563	.9053413
8	.8929301	.0297536	30.01	0.000	.834614	.9512461
9	.9381341	.0218439	42.95	0.000	.8953208	.9809474
10	.9650014	.0158466	60.90	0.000	.9339426	.9960601

Table 23: Fiscal Freedom Ranking (control held at means)

	Delta-method					
	Margin	Std. Err.	z	P>|z|	[95% Conf.	Interval]
_at						
1	.4029626	.2050368	1.97	0.049	.0010978	.8048273
2	.4593267	.1855931	2.47	0.013	.0955709	.8230825
3	.5167511	.1610993	3.21	0.001	.2010022	.8325
4	.5737364	.133823	4.29	0.000	.3114482	.8360246
5	.6288286	.1064986	5.90	0.000	.4200952	.837562
6	.6807624	.0820424	8.30	0.000	.5199623	.8415625
7	.7285662	.0632733	11.51	0.000	.6045528	.8525796
8	.7716133	.0522079	14.78	0.000	.6692877	.8739388
9	.8096174	.0484253	16.72	0.000	.7147055	.9045292
10	.8425876	.048765	17.28	0.000	.74701	.9381652
11	.8707596	.0499739	17.42	0.000	.7728124	.9687067

Table 24: Government Spending Rankings (control held at means)

	Delta-method					
	Margin	Std. Err.	z	P>|z|	[95% Conf.	Interval]
_at						
1	.8896064	.0562037	15.83	0.000	.7794493	.9997636
2	.8762742	.0554056	15.82	0.000	.7676811	.9848672
3	.8615823	.0541217	15.92	0.000	.7555057	.9676589
4	.8454535	.0525744	16.08	0.000	.7424096	.9484975
5	.827821	.0511949	16.17	0.000	.7274809	.9281611
6	.8086321	.0506836	15.95	0.000	.7092941	.90797
7	.7878526	.0519743	15.16	0.000	.6859849	.8897203
8	.7654713	.0559925	13.67	0.000	.6557279	.8752147
9	.7415035	.0632866	11.72	0.000	.6174641	.8655428
10	.715995	.0738544	9.69	0.000	.5712429	.860747
11	.689025	.0872907	7.89	0.000	.5179383	.8601117

Table 25: Business Freedom Rankings (control held at means)

	Delta-method					
	Margin	Std. Err.	z	P>|z|	[95% Conf.	Interval]
_at						
1	.21708	.157508	1.38	0.168	-.0916301	.5257901
2	.2887805	.1646824	1.75	0.080	-.0339911	.611552
3	.3728841	.1590086	2.35	0.019	.0612328	.6845353
4	.4654518	.1401466	3.32	0.001	.1907695	.740134
5	.5604619	.1122456	4.99	0.000	.3404645	.7804593
6	.6512384	.0829491	7.85	0.000	.4886611	.8138157
7	.7322244	.0602989	12.14	0.000	.6140406	.8504081
8	.8001749	.0482898	16.57	0.000	.7055287	.8948211
9	.8543131	.0436992	19.55	0.000	.7686642	.9399621
10	.8956958	.0408056	21.95	0.000	.8157182	.9756733
11	.9263371	.0369804	25.05	0.000	.8538568	.9988174

Table 26: Labor Freedom Rankings (control held at means)

	Delta-method					
	Margin	Std. Err.	z	P>|z|	[95% Conf.	Interval]
_at						
1	.8345168	.1358772	6.14	0.000	.5682023	1.100831
2	.829876	.1220001	6.80	0.000	.5907603	1.068992
3	.8251324	.1083445	7.62	0.000	.6127811	1.037484
4	.8202851	.0954681	8.59	0.000	.6331711	1.007399
5	.8153335	.0842911	9.67	0.000	.6501259	.9805411
6	.810277	.0762307	10.63	0.000	.6608677	.9596864
7	.8051152	.0730646	11.02	0.000	.6619112	.9483193
8	.7998477	.0761482	10.50	0.000	.6505999	.9490955
9	.7944741	.0854894	9.29	0.000	.6269179	.9620303
10	.7889943	.0999508	7.89	0.000	.5930943	.9848942
11	.7834082	.1181966	6.63	0.000	.5517472	1.015069

Table 27: Monetary Freedom Rankings (control held at means)

	Margin	Delta-method Std. Err.	z	P>|z|	[95% Conf.	Interval]
_at						
1	.7601766	.1389746	5.47	0.000	.4877914	1.032562
2	.7628743	.1230526	6.20	0.000	.5216956	1.004053
3	.765551	.1078052	7.10	0.000	.5542567	.9768453
4	.7682067	.0934239	8.22	0.000	.5850992	.9513141
5	.7708413	.0802148	9.61	0.000	.6136231	.9280594
6	.7734548	.0686708	11.26	0.000	.6388624	.9080471
7	.7760471	.0595537	13.03	0.000	.6593241	.8927701
8	.7786183	.053874	14.45	0.000	.6730273	.8842093
9	.7811683	.0525208	14.87	0.000	.6782294	.8841071
10	.783697	.0555925	14.10	0.000	.6747376	.8926564
11	.7862046	.0622484	12.63	0.000	.6641998	.9082093

Table 28: Trade Freedom Rankings (control held at means)

	Margin	Delta-method Std. Err.	z	P>|z|	[95% Conf.	Interval]
_at						
1	.0711313	.0674862	1.05	0.292	-.0611393	.2034018
2	.1167026	.0915929	1.27	0.203	-.0628161	.2962214
3	.1856352	.114634	1.62	0.105	-.0390434	.4103138
4	.2822725	.1281005	2.20	0.028	.0312001	.5333448
5	.4042447	.123717	3.27	0.001	.1617638	.6467257
6	.5393182	.101619	5.31	0.000	.3401487	.7384877
7	.6688539	.0734482	9.11	0.000	.524898	.8128098
8	.7770252	.0525348	14.79	0.000	.6740588	.8799915
9	.8573952	.0411394	20.84	0.000	.7767635	.9380269
10	.9120743	.03343	27.28	0.000	.8465528	.9775958
11	.9470817	.0262164	36.13	0.000	.8956986	.9984649

Table 29: Investment Freedom Rankings (control held at means)

	Margin	Delta-method Std. Err.	z	P>|z|	[95% Conf.	Interval]
_at						
1	.5200033	.1440878	3.61	0.000	.2375964	.8024102
2	.5739902	.1226112	4.68	0.000	.3336767	.8143037
3	.626269	.1010876	6.20	0.000	.4281409	.8243972
4	.6757565	.0815621	8.29	0.000	.5158976	.8356153
5	.721604	.0658737	10.95	0.000	.5924939	.8507141
6	.76324	.0552277	13.82	0.000	.6549957	.8714844
7	.8003718	.0495605	16.15	0.000	.703235	.8975086
8	.8329546	.0473796	17.58	0.000	.7400923	.925817
9	.861142	.0467131	18.43	0.000	.7695861	.9526979
10	.8852284	.0461351	19.19	0.000	.7948053	.9756515
11	.9055948	.044972	20.14	0.000	.8174514	.9937382

Table 30: Financial Freedom Rankings (control held at means)

	Margin	Delta-method Std. Err.	z	P>|z|	[95% Conf.	Interval]
_at						
1	.4680023	.1430286	3.27	0.001	.1876714	.7483333
2	.5327667	.1236244	4.31	0.000	.2904673	.775066
3	.5964453	.1023729	5.83	0.000	.395798	.7970925
4	.6570321	.0821086	8.00	0.000	.4961021	.8179621
5	.7129012	.065453	10.89	0.000	.5846156	.8411868
6	.7629529	.0540723	14.11	0.000	.6569732	.8689325
7	.8066453	.047853	16.86	0.000	.7128551	.9004355
8	.8439318	.0449559	18.77	0.000	.7558199	.9320437
9	.8751409	.0432258	20.25	0.000	.7904198	.959862
10	.9008424	.0413322	21.80	0.000	.8198328	.981852
11	.9217266	.0388081	23.75	0.000	.8456642	.997789

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